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C O N F I D E N T I A L BUENOS AIRES 000642

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TREASURY FOR NANCY LEE, AJEWEL, WBLOCK, LTRAN
NSC FOR JOSE CARDENAS, ROD HUNTER
PASS FED BOARD OF GOVERNORS FOR RANDALL KROSZNER, PATRICE
ROBITAILLE
PASS EXIM BANK FOR MICHELE WILKINS
PASS OPIC FOR JOHN SIMON, GEORGE SCHULTZ, RUTH ANN NICASTRI
USDOC FOR 4322/ITA/MAC/OLAC/PEACHER

E.O. 12958: DECL: 03/29/2017

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SUBJECT: ARGENTINE FINANCE SECRETARY CHODOS ON MEETINGS
WITH TREASURY, PARIS CLUB, BANCO DEL SUR, AND ECUADOR

REF: A. BUENOS AIRES 383

[1](#)B. BUENOS AIRES 619

[1](#)C. BUENOS AIRES 550

Classified By: Ambassador E.A. Wayne for Reasons 1.4 (b,d)

Summary

[1](#)1. (C) GoA Finance Secretary Sergio Chodos and Finance Undersecretary Alejandra Scharf discussed with Econoffs on March 27 their impressions of Chodos' March 18 bilat in Guatemala with U.S. Treasury officials. Chodos expressed Economic Minister Felisa Miceli's interest in meeting with Treasury Secretary Paulson during the mid-April IMF/World Bank meetings. He discussed the GoA's position on payment of Paris Club arrears and summarized the report he gave to Treasury, outlining the GoA's financing constraints and arguing against the use of reserves to pay Paris Club arrears. Chodos also briefed Econoffs on Minister Miceli's March 21-22 trip to Ecuador, during which GoA officials provided informal guidance on debt and tax issues, and outlined the GoA's arguments for supporting the Banco del Sur. End Summary.

GOA interest in Bilat with Treasury Secretary Paulson

12. (C) Chodos expressed the GoA's strong interest in arranging a bilat between Economy Minister Felisa Miceli and Treasury Secretary Paulson during the IMF/World Bank Spring meetings in Washington in mid-April. He said Treasury DAS Nancy Lee had agreed only to "look into it," during their March 18 meeting in Guatemala, and he asked Econoffs how realistic the chances were of getting this meeting. Chodos acknowledged the complicating factor of GoA/USG frictions in the wake of Chavez's anti-U.S. rally in Buenos Aires earlier this month, and his expression made it clear that he was not optimistic about securing the meeting. EconCouns responded that it was important to continue the dialogue and asked whether this request would be raised through formal channels, such as via Argentina's Embassy in Washington. EconCouns encouraged the Econ Ministry to state clearly their objectives for the meeting. Chodos commented that the focus would be on continuing the dialogue on Paris Club, but the Minister would also be open to discussing recent GoA interaction with the Government of Ecuador, and status of the Banco del Sur discussions.

Chodos/Treasury Bilat in Guatemala -- Focus on Paris Club

13. (C) Chodos was typically frank in his discussions of both GoA Paris Club priorities and internal deliberations. He said the meeting with DAS Lee was useful in terms of reviewing both sides' positions. He said the Econ Ministry "liked the concept" of starting unilateral payments on Argentina's Paris Club debts. However, as he said he had explained to DAS Lee, the GoA is concerned that an informal workout would be complicated and difficult for the GoA to manage. He said he also reviewed with DAS Lee the GoA's pre-requisites for entering into such an arrangement: 1)

access to Export Credit Agency financing; and 2) some kind of written and public acknowledgment of a deal. The latter requirement relates to Chodos' frequent claim that any deal with the Paris Club must allow the GoA -- and, particularly, President Kirchner -- to claim publicly that Argentina has normalized its relationship with official creditors.

14. (C) With regards to an informal payment structure outside of normal Paris Club norms, Chodos said he explained to DAS Lee that the GoA's main concern was how to manage payment on its 200 separate credit lines, since they would not be consolidated as is the practice with a formal Paris Club restructuring deal. Chodos said it was his understanding that the GoA would be required to make separate payments on the 200 credit lines even if the Paris Club decided internally on the distribution of the payments. U/S Scharf also noted that the GoA would want to be assured that the payments were canceling principal and compensatory interest, rather than having creditors direct the funds to pay punitive interest. She pointed out that most if not all of the GoA's contracts had punitive clauses, which carried penalty interest rates on arrears.

15. (C) Chodos pointed out that, much like the U.S. has Congressional interests that it must take into account, the GoA also must meet certain conditions with regards to restructuring its debt. He noted that Argentina's Financial Administration Law allows the GoA to restructure public debt through "consolidation, conversion, or renegotiation," as long as the operation entails "an improvement in the amount, terms, or the interest rate" of the original debt. To avoid having to get Congressional approval of informal payments to Paris Club creditors, the GoA would need to reduce its obligations in two of the preceding three areas (i.e., the principal, maturity, and/or interest). Chodos emphasized that the "haircut could be minor," and argued that eliminating punitive interest payments while the GoA pays over some fixed period would be sufficient to meet this legal requirement.

GoA reaction/ response to Paris Club Chairman's letter

16. (C) Chodos said the GoA had been surprised at the tone of Paris Club Chairman Musca's latest letter (Note: This

letter, dated March 6, conveyed Paris Club concerns about outstanding arrears, urged the GoA to use its significant official reserves to clear the arrears, and clarified that Argentina's recent debt deal with Spain was not a precedent for the repayment of Paris Club arrears). When EconCouns noted that the GoA's March 13 response was strong, rejecting the use of reserves and the involvement of the IMF, Chodos retorted that Musca's letter was stronger -- and also sent contradictory messages. He said Musca called for dialogue with Paris Club members, but then also demanded that the GoA pay its arrears and interest in full, using reserves if necessary. He asked "what the point of dialogue was if the only option was to just pay." The GoA response, on the other hand, emphasized the GoA's willingness to negotiate. Chodos said he was just looking for a sign that the GoA could begin

discussing numbers with Paris Club members. In his typically open (and rather trusting) way when talking to Econoffs, Chodos closed by commenting that senior GoA officials are looking to resolve the Paris Club situation, but noted that they "see it as an issue that they want to resolve but do not need to resolve."

Econ Ministry's Financial Constraints Paper

¶7. (C) Chodos spoke briefly about the paper he passed DAS Lee outlining Argentina's financing constraints and explaining the GoA's reasoning for why it would be extremely difficult to use Central Bank reserves to clear arrears. First, Chodos noted that it would require either or both of: 1) changes to Argentine law, which limits the Central Bank to using reserves to pay IFI debts (not bilateral debt); or 2) changes to the Central Bank's Charter, which limits short-term lending to the GoA. He noted that the paper also argues that using reserves in this way would also increase Argentina's vulnerability to external shocks.

¶8. (C) Chodos described the paper's two preferred rescheduling scenarios: 1) rescheduling over nine years, with three-year grace and annual payments; and 2) nine-years, with no grace period and semi-annual payments. Chodos also outlined the paper's four alternative scenarios, two of which involve GoA issuance of new debt to clear Paris Club arrears, and two that involve use of reserves. When Econoffs pointed out that the GoA had clearly couched their descriptions of these options to highlight their disadvantages (higher debt burdens, higher interests costs on all GoA debt, and vulnerability to external shocks), Chodos agreed, commenting that the GoA did not consider these viable options.

GoA Visit to Ecuador

¶9. (C) Chodos was less open than he has been in past meetings in discussing the details of GoA-GoE discussions, particularly with regards to Minister Miceli's March 21-22 visit to Quito. He said there was a warm relationship between the two governments, and Argentina was very sympathetic to Ecuador's current difficulties. He reported that the GoE is actively seeking GoA technical assistance, particularly in the area of tax structure and collection. Chodos remarked that the GoA was not trying to act as "Ecuador's big brother," so GoA officials had continued on earlier discussions (Ref A), focusing on Argentina's experience with the default and revenue enhancement policies.

¶10. (C) Chodos emphasized that Ecuador's situation differs significantly from that of Argentina in 2001, acknowledging that Ecuador's debt/GDP ratio is relatively minor. However, he noted that their debt service/revenues ratio is high, given Ecuador's woefully inadequate tax collection. Argentina's recent performance in increasing revenues (Ref B) is a source of great interest to GoE officials, but Chodos said the GoA was not offering specific tax generation remedies (Note: he rejected the suggestion that the GoA

might suggest some of Argentina's more unorthodox tax policies, i.e., financial transactions tax or export taxes

End Note). Chodos said the GoA might also provide informal technical guidance on government reorganization, pointing out that Ecuador has 17 ministries while Argentina has only eight.

Status of Banco del Sur Deliberations

¶11. (C) Chodos cautiously responded to Econoffs' questions about the status of working level talks on the Banco del Sur.

(Note: Meetings have been ongoing in Buenos Aires with reps from Venezuela, Brazil, Bolivia and Ecuador exploring structure and capitalization options. End Note.) Chodos ducked questions on capitalization, refusing to confirm recent Argentine press reports that total capitalization will total only about \$3.5 billion, much reduced from earlier calls for member countries to contribute each up to 10% of official reserves. (Note: Local press reported that Minister Miceli did not attend the March 30 senior-level meetings in Caracas to review Banco del Sur charter mandates.

Instead, she reportedly sent Legal Secretary Estela Palomeque -- who is leading talks for the GoA side -- to represent Argentina. End Note)

¶12. (C) Although Chodos also refused to confirm that Argentina would contribute Central Bank reserves, he acknowledged that if the GoA chose that route it would just be part of the Central Bank's normal diversification of its reserve assets, noting that many other countries (e.g., China) were doing the same. He also said that Argentina's commitment would probably not be in the form of paid-in or "callable capital," but would rather be deposited ("parked") at Banco del Sur.

¶13. (C) EconCouns noted the Brazilian Planning Minister's earlier lukewarm support for the Banco del Sur concept, where he had implied that Brazil should look first to strengthening existing (CAF and FONPLATA) regional development institutions. However, Chodos justified the GoA's support for the Banco del Sur as an attempt to increase funding for development in the region and also to foster competition among the various development banks. (Note: Scharf noted that Argentina had appropriated, but not yet disbursed, \$500 million for the CAF). Chodos also pointed out that Argentina would love to have a domestic development bank on the lines of Brazil's BNDS, but that the legacy and messy cleanup of Argentina's failed National Development Bank -- which ended in a corruption scandal, amid huge unpaid loans -- makes that impossible now. He called the Banco del Sur the next best thing.

Comment

¶14. (C) Chodos spent much of his working life in the U.S., is pro-American, and is generally open and candid during meetings with Embassy officials. His reticence on this occasion may have been due to the presence of Finance U/S Scharf, who is close to Minister Miceli. Scharf is less

trusting of the USG, and several times pushed back on our questions on Banco del Sur, inquiring about the reasons for U.S. interest. Even while pursuing a more cautious line, Chodos' admission that Argentina was still considering the option of using of reserves to capitalize the Banco del Sur was striking. He must be aware that this would raise eyebrows with Paris Club creditors, given the GoA's arguments against using arrears to clear arrears. Furthermore, he is likely aware that Central Bank President Martin Redrado (PROTECT) warned President Kirchner (Ref C) that using reserves to capitalize the Banco del Sur could undermine the GoA's court cases in New York's second circuit against bond holdouts from the 2005 debt exchange. This reticence has subsequently been reported in the press here. End Comment.

WAYNE